

**YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2008**

As financial management of Yellowstone County, Montana, we offer readers of the attached financial statements this narrative overview and analysis of the financial activities of Yellowstone County for the fiscal year ended June 30, 2008 and the financial position as of June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which precedes this report.

Financial Highlights

- The general fund increased fund balance by \$739,807. The closure of the district court fund balance into the general fund generated \$347,298 of the increase. Interest rates rose during FY08 for much the fiscal year. This resulted in interest collections exceeding budget by \$385,000. Clerk and recorder document filing fees stayed stronger than expected with this revenue source exceeding budget by \$145,000. Personal property tax collections were delayed in sending out bills due to new State software. All funds with property tax revenues had a shortfall in this area for FY08, however, the late billing did not cause any significant funding problems. In the general fund this resulted in a shortfall to budget of \$130,000. Collections of these FY08 personal property tax revenues will be reported in FY09's fund activity.
- The capital improvement fund had an expenditure of \$1,302,000 for land acquisition near the courthouse. The land purchase was acquired to facilitate a federal courthouse project. The property acquired will likely be utilized as replacement parking in the event that the federal courthouse project is built on land currently being used for county courthouse parking. The County also traded land with City of Billings to facilitate the City's new bus transfer station in proximity to the courthouse.
- The district court fund has been closed as of June 30, 2008 and its fund balance transferred to the general fund. Due to State assumption of previous district court operations, the district court fund was only being utilized for operations of the clerk of district court department. That department has been transferred to general fund to simplify accounting and budgeting.
- In June 2008, the County issued a \$3,000,000 limited tax general obligation bond. The proceeds were divided with \$1,400,000 being utilized for seating improvements at Metra and \$1,600,000 being utilized for a voter approved veteran's cemetery in Laurel. These projects should be complete by the end of calendar 2008. Debt repayment will come from a \$225,000 voter approved levy for the \$1,600,000 on the veteran's cemetery and from existing levy authority on the \$1,400,000 in Metra seating improvements.

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2008

- METRA had a nominal change in net assets of \$13,616, which included \$317,882 in revenues contributed or supported by the general fund. The cash position of Metra, exclusive of trust fund cash, increased \$545,107 from FY07 to a total of \$1,752,301. The total Metra cash position includes \$918,816 of funds allocated for capital improvements at Metra. Metra has improved its financial position significantly over the last couple of years, however, Metra still has to generate additional funds or save costs to become self-supporting. The County has also invested in significant capital expenditures in recent years to maintain and improve the facility, including facility signing, seating enhancements, barn maintenance, and on-line ticketing systems.

Explanation of the Financial Statements

The MD&A is intended to serve as an introduction to the basic financial statements of Yellowstone County. The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements.

Government-wide financial statements. The Government-wide financial statements are designed to provide readers with a broad overview of Yellowstone County's finances, in a manner similar to a private sector business on a full accrual accounting basis.

The statement of net assets presents information on all of Yellowstone County's assets and liabilities, with the difference between the two reported as net assets. Increases or decreases in net assets may serve as a useful indicator of whether the financial position of Yellowstone County is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (example: uncollected property taxes, and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of Yellowstone County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs from user fees and charges (business-type activities). The governmental activities of Yellowstone County

**YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2008**

include general government, public safety, public works (roads and bridges), public health, social and economic programs, cultural and recreational programs, conservation of natural resources, and community/economic development. The business-type activities include refuse disposal and METRA civic center.

The government-wide financial statements can be found on pages 22-24 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control and account for resources that have been segregated for specific activities or objectives. Yellowstone County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal or contractual requirements. All of the funds of Yellowstone County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current fiscal year inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's recent financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's recent financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Yellowstone County maintains many individual governmental funds. The general fund, road fund, property and liability insurance fund, public safety-sheriff fund, RSID Bond Fund, and capital improvement fund are all reported as major funds. Information for the major funds is reported separately in the governmental fund balance sheet and in the governmental fund's statement of revenues, expenditures, and changes in fund balances. Each of the major funds also reports the revenues and expenditures on a

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2008

comparative basis with the annually appropriated budget both original and revised to demonstrate compliance with this budget. The remaining governmental funds are combined in a single aggregate presentation titled other nonmajor governmental funds. Individual fund reports for each of the nonmajor governmental funds are presented in the combining financial statements in this report.

The basic governmental fund financial statements can be found on pages 25-31 of this report.

Proprietary funds. Yellowstone County maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Yellowstone County uses enterprise funds to account for operations of the refuse disposal fund and METRA civic center, both of which are reported as major funds. Internal service funds are used to accumulate and allocate costs internally among various government department users or affiliated organizations. The three internal service funds utilized by the county include the health insurance fund, motor pool, and telephone fund. Because these services predominately benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements. Interdepartmental charges for internal service funds have been eliminated from the Statement of Activities.

Proprietary funds are reported in the same way that all activities are reported in the statement of net assets and the statement of activities, but provide more detail in addition to a cash flow statement. Internal service funds are combined into a single aggregated presentation in the proprietary fund financial statements. Individual fund statements for the internal service funds are presented in the combining statements in this report.

The basic proprietary fund financial statements can be found on pages 32-36 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties and entities outside the government of Yellowstone County. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support Yellowstone County's own programs.

The basic fiduciary fund financial statements can be found on pages 37-38 of this report.

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2008

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data and reports presented in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 39-64 of this report.

Required supplementary information. All required supplementary information precedes the basic financial statements or is included in the basic financial statements and accompanying notes, therefore no other information is presented in the section for required supplementary information.

Government-wide Financial Analysis.

Net assets may serve as a useful indicator of a government's financial position, which is one of the reasons why the Governmental Accounting Standards Board (GASB) instituted GASB Statement #34 and required local governments to present net asset information. Yellowstone County's net assets (assets less liabilities) were \$77,636,732 for the year ended June 30, 2008. The change to net assets for governmental and business-type activities for the fiscal year ended June 30, 2008 was \$5,976,144.

Of the County's yearend total net assets of \$77,636,732, capital assets net of the related debt accounted for \$51,586,730 or 66.5% of total net assets. Capital assets reflect the large investments in facilities and equipment that are necessary to provide large scale programs and services for the community. The restricted net assets (\$629,854 or 0.8%) are those funds legally required to be used for debt service payments. Unrestricted net assets of \$25,420,148 account for 32.7% of the total net assets. Unrestricted unreserved net assets are primarily used as reserves that are used for cash flow purposes in between property tax collections, which are due in 50% installments on November 30 and May 31 of each year, and as reserves to provide against large unforeseen costs or events. A comparison of the County's net assets follows:

**YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2008**

Yellowstone County Net Assets

	Governmental Activities		Business Activities		Total	
	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>
Current assets	\$ 32,942,950	\$ 39,110,579	\$ 2,433,867	\$ 3,057,622	\$ 35,376,817	\$ 42,168,201
Noncurrent assets	1,284,939	1,163,345	0	0	1,284,939	1,163,345
Capital assets	35,698,315	38,042,462	12,484,586	13,544,268	48,182,901	51,586,730
Total assets	69,926,204	78,316,386	14,918,453	16,601,890	84,844,657	94,918,276
Current liabilities	5,559,022	5,848,302	437,979	898,061	5,997,001	6,746,363
Noncurrent liabilities	7,050,234	9,102,973	136,834	1,432,208	7,187,068	10,535,181
Total liabilities	12,609,256	14,951,275	574,813	2,330,269	13,184,069	17,281,544
Net assets:						
Invested in capital assets, net of related debt	35,698,315	38,042,462	12,484,586	13,544,268	48,182,901	51,586,730
Restricted for debt service	752,553	629,854	0	0	752,553	629,854
Unrestricted	20,866,080	24,692,795	1,859,054	727,353	22,725,134	25,420,148
Total net assets	\$ 57,316,948	\$ 63,365,111	\$ 14,343,640	\$ 14,271,621	\$ 71,660,588	\$ 77,636,732
Change in net assets		<u>\$ 6,048,163</u>		<u>\$ (72,019)</u>		<u>\$ 5,976,144</u>

Governmental activities.

The increase in net assets for governmental activities of \$6,048,163 was primarily a result of:

- \$1,175,685 increase in net assets of the health insurance fund
- \$404,809 increase in net assets as a result of the decrease in long-term debt
- \$411,096 increase in RSID maintenance funds for capital maintenance projects
- \$446,200 in revenue contributed from the City of Billings tax increment district for parking improvements
- \$2,371,167 increase in net capital assets
- \$916,481 increase in tax receivables

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2008

Yellowstone County's Change in Net Assets

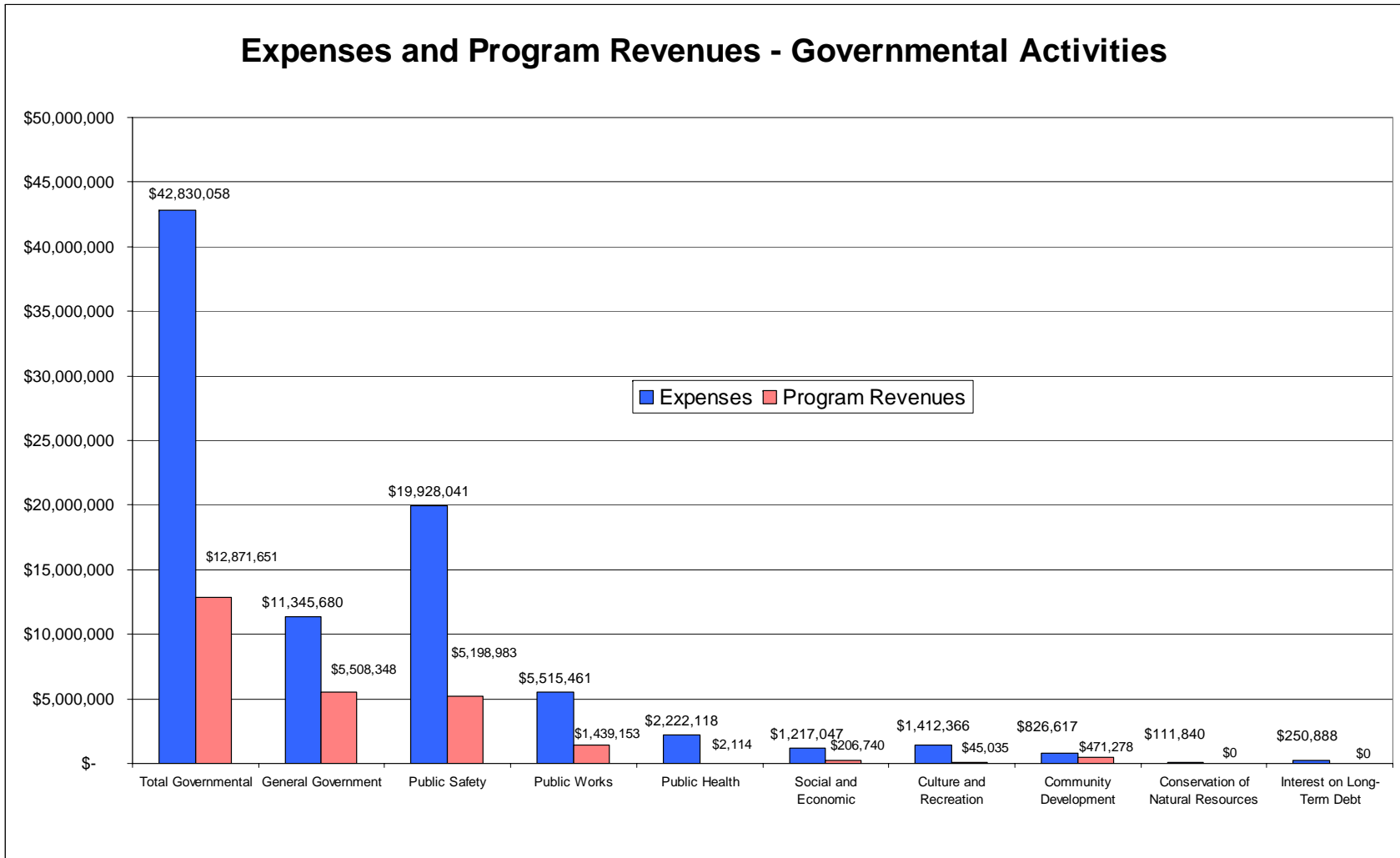
	Governmental Activities		Business-type Activities		Total	
	2007	2008	2007	2008	2007	2008
Revenues:						
Program revenues:						
Special assessments	\$ 796,551	\$ 554,539	\$ 293,875	\$ 331,357	\$ 1,090,426	\$ 885,896
Licenses and permits	72,056	71,464	0	0	72,056	71,464
Intergovernmental	1,105,290	1,348,338	0	0	1,105,290	1,348,338
Fines and forfeitures	717,034	738,133	0	0	717,034	738,133
Charges for services	8,486,563	8,601,503	4,312,825	4,115,283	12,799,388	12,716,786
Operating grants and contributions	953,399	915,682	0	0	953,399	915,682
Capital grants and contributions	961,727	641,992	0	0	961,727	641,992
Total program revenues	13,092,620	12,871,651	4,606,700	4,446,640	17,699,320	17,318,291
General revenues:						
Property taxes	25,612,508	27,934,463	1,109,239	1,228,459	26,721,747	29,162,922
Licenses and permits	3,954,725	4,083,512	0	0	3,954,725	4,083,512
Intergovernmental	2,047,651	2,023,698	12,437	6,219	2,060,088	2,029,917
Other revenues	2,285,729	2,063,062	996,089	329,966	3,281,818	2,393,028
Total general revenues	33,900,613	36,104,735	2,117,765	1,564,644	36,018,378	37,669,379
Total revenues	46,993,233	48,976,386	6,724,465	6,011,284	53,717,698	54,987,670
Expenses:						
General government	12,118,733	11,345,680	0	0	12,118,733	11,345,680
Public Safety	18,660,498	19,928,041	0	0	18,660,498	19,928,041
Public Works	7,545,027	5,515,461	0	0	7,545,027	5,515,461
Public Health	2,105,981	2,222,118	0	0	2,105,981	2,222,118
Social and Economic	1,245,464	1,217,047	0	0	1,245,464	1,217,047
Culture and Recreation	2,820,322	1,412,366	0	0	2,820,322	1,412,366
Community Development	315,420	826,617	0	0	315,420	826,617
Conservation of Natural Resources	108,094	111,840	0	0	108,094	111,840
Interest on Long-Term Debt	260,191	250,888	0	0	260,191	250,888
Sanitation, refuse disposal	0	0	376,562	391,992	376,562	391,992
Civic center, METRA	0	0	5,610,957	5,789,476	5,610,957	5,789,476
Total expenses	45,179,730	42,830,058	5,987,519	6,181,468	51,167,249	49,011,526
Increase (decr.) in net assets before transfers	1,813,503	6,146,328	736,946	(170,184)	2,550,449	5,976,144
Transfers	(410,091)	(98,165)	410,091	98,165	0	0
Increase (decrease) in net assets	1,403,412	6,048,163	1,147,037	(72,019)	2,550,449	5,976,144
Beginning net assets	55,913,536	57,316,948	53,196,603	14,343,640	69,110,139	71,660,588
Ending net assets	\$57,316,948	\$63,365,111	\$14,343,640	\$14,271,621	\$71,660,588	\$77,636,732

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2008

Of the County's \$42.83 million in expenses for governmental activities, \$12.9 million (30.0%) was funded with program revenues. The balance of funding came from general revenues, which is primarily property tax revenue (77.6% of the general revenues), or the use of reserves. The major sources of program revenues (and change from prior year) include:

- Gas tax \$270,957 / (-\$327)
- Justice Court fines \$697,696 / (+\$18,258)
- Clerk & Recorder filing fees \$1,177,547 / (-\$119,458)
- Health insurance premiums less County funded premium for employees \$2,688,251 / (+\$459,478)
- Adult detention boarding fees \$1,947,756 / (-311,541)
- Youth detention and secure shelter boarding and program fees \$1,929,096 / (+\$291,459)

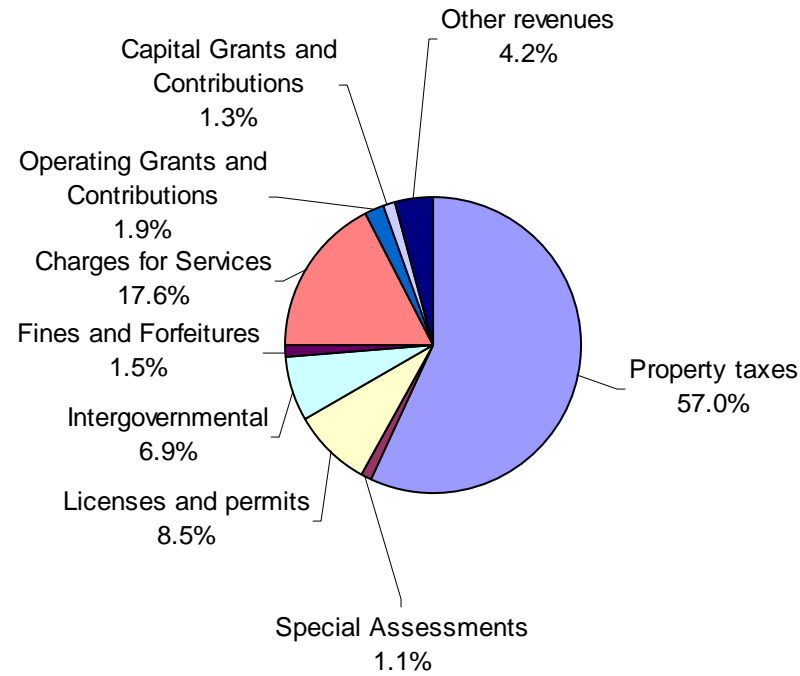
**YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2008**



**YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2008**

See the Statement of Activities for additional detail information regarding revenues and expenditures.

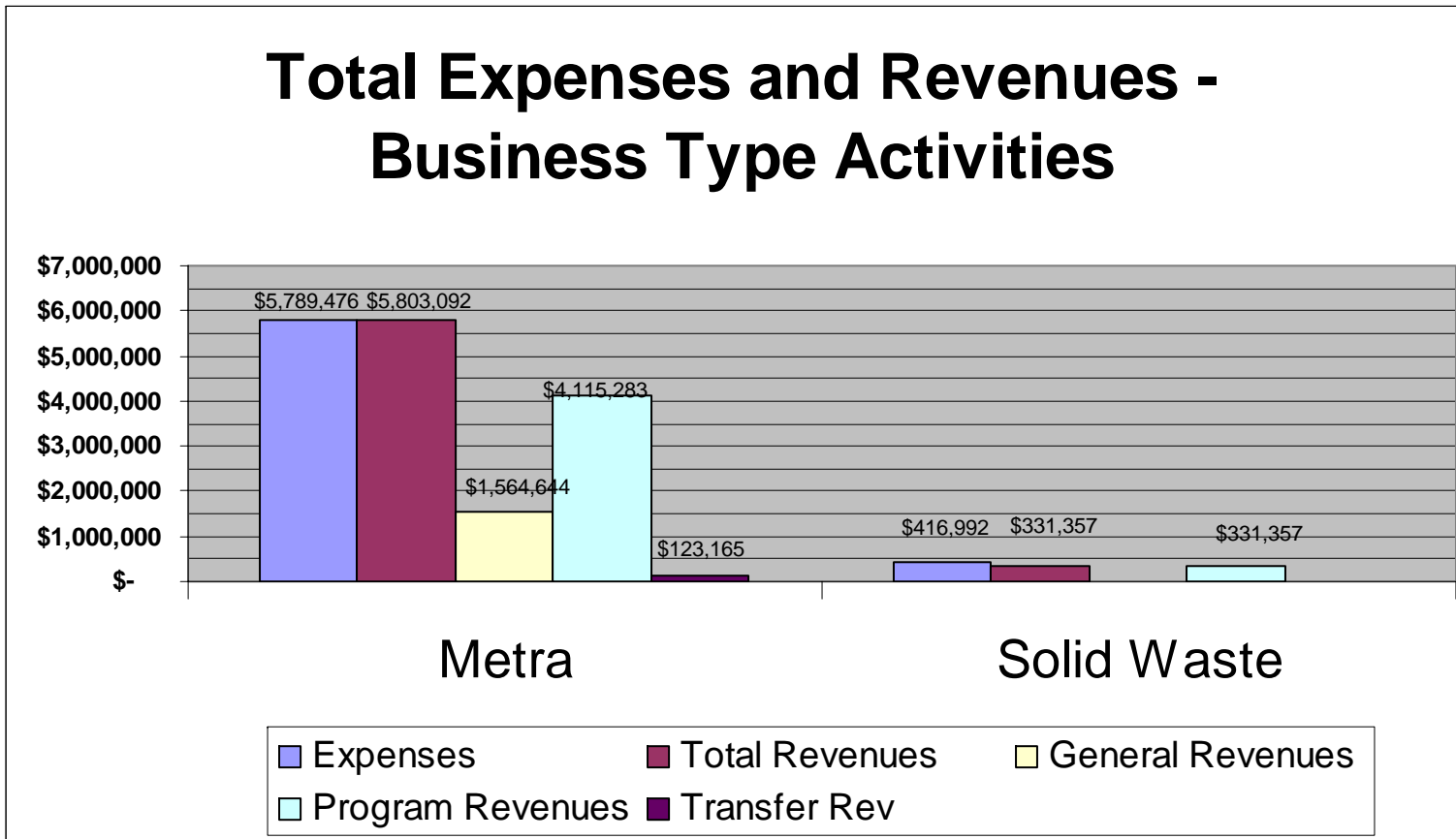
Total Revenues by Source - Governmental Activities



Business-type activities.

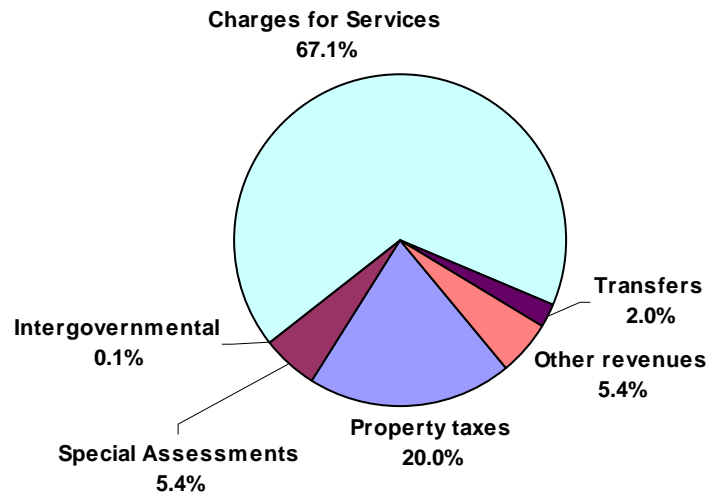
**YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2008**

Total revenues of \$6,109,449 funded total expenses of \$6,181,468, which resulted in a decrease in net assets of (\$72,019) for business-type activities. METRA had a FY08 increase of \$13,616 in net assets. One-time contributions of revenues accounted for \$317,882. Without the one-time revenues, the change in net assets would have been a decrease of (\$304,266). Depreciation expense of \$936,083 has a major impact in the capital intensive fund since the facility does not generate sufficient revenues to provide for long-term capital maintenance and replacement.



**YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2008**

Total Revenues by Source - Business Type Activities



**YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2008**

Fund Financial Statement Analysis

Governmental funds.

Overall, Yellowstone County's governmental funds' change in fund balance for FY08 was an increase of \$3,807,836 resulting in an ending total governmental fund balance of \$28,143,149.

Unspent bond proceeds from the \$3,000,000 general obligation bond issue resulted in a fund balance of \$2,780,752 in the construction fund. These funds are expected to be spent by calendar 2008 year-end.

The general fund increased fund balance by \$739,807 during fiscal year 2008. The primary causes of the increase are explained in MD&A financial highlights section above.

The road fund increased its fund balance by \$104,519. This increase is re-budgeted into road materials for FY09 projects. Road operations and project completion were generally on schedule.

The sheriff's public safety fund balance decreased (\$580,972) due to a decrease in prisoner billing of \$200,000, a shortfall in personal property tax collections of \$130,000, and a shortfall in real estate property taxes of \$200,000 due to unresolved protested taxes.

The property and liability insurance fund incurred an increase in fund balance of \$83,305 as claim settlements and defense costs moderated slightly.

The district court fund decreased in fund balance by (\$584,861) and the fund was closed to general fund.

The youth services fund had an increase in fund balance of \$296,810 due to increase in program revenues of \$117,000 and expenses coming in \$130,000 below budget. At the end of FY08, fund balance has increased to a level that will be better positioned to absorb a decline in program revenues if population numbers decrease at the facility.

See financial highlights section above for discussion related to other notable changes to governmental fund balances.

Proprietary funds.

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2008

The refuse disposal fund had a decrease in net assets of (\$85,635) for FY08. This fund has total net asset of \$684,502 on June 30, 2008, which exceeds the amount necessary for the operation of the fund. The fund accumulated this amount as a result of anticipation of funding landfill contract costs that did not occur. As a result, it is anticipated that future year's reserves will be reduced in order to reduce the net assets of this fund. The current assessment rate is set below the expected costs of operations and a reduction to reserves began occurring in FY05. The rate of fund reserves decline should slow over the next couple of years as the assessment rate is increased in order to reach a balanced budget when the desired fund reserve has been achieved.

METRA has improved its cash position significantly over the last few years and facility enhancements have been achieved through general fund support along with improved operations. It is hoped that recent investment in METRA facilities will continue to produce community events and the associated revenues to support the facility without the need for additional tax revenues. Current booked events are indicating the potential for a good year for METRA, however, the pending recession may also begin to impact results of operations. It is a goal for METRA to generate additional operational revenues to assist with capital maintenance and replacement needs, although it is likely that additional revenue sources will be necessary to fund long term facility capital maintenance and replacement. See financial highlights section above for additional discussion related to METRA.

The health insurance fund had a net asset increase of \$1,175,685 for FY08 to bring the ending net assets to \$3,028,843. For FY09, the health plan is again funded to cover costs based on a projected cost level determined by our health plan third party administrator. The County's FY09 exposure for claims above funding is approximately \$623,000. The aggregate stop-loss would pay claims after that amount. Medical inflation remains a major concern and continues to present challenges to maintain a health plan that provides good benefits at affordable premiums. Health insurance viability is a nationwide systemic concern. The County reviews the health plan every year to review premium rates, benefits, and plan administration. On July 1, 2008, the County made a medicare advantage plan available to eligible medicare retirees at no cost to the retiree or the County. Eligible medicare retirees will have an annual election to participate in the medicare advantage plan or to return to the County's health plan.

Governmental Fund Budgetary Highlights

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2008

Differences between original and final revised budget were a result of state and federal grant awards and related match funding being added to the original budget. The original budget does not include either new or continuing grant activity and is subsequently amended into the budget by resolution of the Board of County Commissioners. New grants added \$1.6 million of revenue and expenditure appropriations to the FY08 budget. Some major grants included in the fiscal year 2008 budget were:

- \$153,296 for fuels mitigation grants to reduce fire risks for residential properties
- \$474,910 for a CDBG Town of Custer sewer improvement grant
- \$108,309 for jail based treatment programs and jail data collection grants
- \$189,122 in various crime control grants, primarily for juvenile programs and gun violence
- \$86,680 in various grants for youth programs

Some of the significant final budget to actual revenue variances include:

- (\$360,161) of unearned grant revenue, which is offset by a similar amount of unexpended grant appropriations
- A 3.0-3.5% shortfall in real estate property tax revenues due to protests on a couple of large centrally assessed taxpayers
- Approximately 89% of the FY08 personal property tax billing was uncollected by 6/30/08 (but not delinquent) due to late billing
- \$157,547 of additional clerk & recorder fees (15% over budget) generated by activity in the local housing and real estate market
- \$25,472 in additional motor vehicle option tax for public safety
- (\$202,244) shortfall in prisoner boarding fees for sheriff's detention facility due to declining prisoner populations in inmates from jurisdictions paying boarding fees
- \$117,415 in boarding and program fees for youth services and detention
- \$385,791 of interest earnings in the general fund due to increasing interest rates during FY08.
- \$37,696 of additional justice court fines due to a more aggressive collections program.

The appropriation final budget to actual variances of significance include:

**YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2008**

- \$2,228,976 in unspent contingency budgets, which are budgets set aside for unforeseen expenditures
- \$8,294,285 in unspent capital project budgets, which are typically reserves appropriated in the current year but not necessarily scheduled to be spent in the current year and also includes \$2,779,452 of budget appropriated for bonded construction projects starting in June 2008.
- \$709,209 of unspent road budget due to staffing and time available to complete projects
- \$526,688 in unspent bridge projects, which are carried forward to the next budget cycle
- \$233,529 in unspent sheriff's detention budget, which was offset by declining prisoner boarding revenues.
- \$151,652 in unspent county attorney's personnel costs
- \$98,143 in unspent involuntary commitment costs

Capital Assets

A comparison of capital assets for the last two fiscal years is presented below:

	Governmental Activities		Business Activities		Total	
	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>
Land	\$ 1,947,987	\$ 3,191,649	\$ 368,574	\$ 368,574	\$ 2,316,561	\$ 3,560,223
Buildings	11,501,939	11,105,252	11,405,998	10,743,149	22,907,937	21,848,401
Improvements other than buildings	381,816	358,872	469,513	1,785,707	851,329	2,144,579
Equipment and vehicles	6,076,314	6,084,799	240,501	251,919	6,316,815	6,336,718
Infrastructure	15,785,689	16,962,314	0	0	15,785,689	16,962,314
Construction in progress	4,570	339,576	0	394,919	4,570	734,495
Total Capital Assets	\$ 35,698,315	\$ 38,042,462	\$ 12,484,586	\$ 13,544,268	\$ 48,182,901	\$ 51,586,730

Governmental capital assets increased \$2,344,147 in total during the year as a result of the addition of new capital assets in the governmental funds of \$5,469,291 while being offset by depreciation of \$3,065,237 and a loss on disposal of assets of \$32,887 and decreasing net capital assets in the internal service funds by \$27,020.

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2008

Some of the larger capital acquisitions in the governmental activities were:

- \$2.1 million in infrastructure improvements for county roads
- Land acquisition located by courthouse \$1,302,287
- Courthouse carpet replacement and office remodeling \$163,000
- Heavy equipment for road department \$455,000
- Bridge and culvert replacements \$533,000
- Replacement of sheriff department vehicles and related mobile data systems \$318,000

Some of the larger capital acquisitions in the business activities were:

- Metra signage enhancement \$1,506,923; which was funded through future advertising revenues
- Construction in progress projects for Metra include telescopic seating replacement for \$1,050,000; seat cushion replacement for \$200,000; on-line ticketing system \$72,000; fiber optic cabling \$100,000; and half-house seating \$330,000.

See footnote 7 for additional information on capital assets.

Long-term Debt

As of June 30, 2008 the County has \$11,663,294 of outstanding long-term debt. Governmental funds account for \$11,475,927 and the enterprise funds account for \$187,367.

The largest component of long-term debt is \$7,155,000 of general obligation bonds issued by the County. A new \$3,000,000 limited tax general obligation bond was issued to make improvements for the veteran's cemetery and for seating projects at Metra. Debt repayment for this bond will come from available tax revenues. The other general obligation bond, which has a balance \$4,155,000 was issued to expand and improve the event facilities located at METRA. This voter approved debt is being funded by an annual tax levy on citizens within the County. Law requires an annual levy sufficient to service the general obligation bond.

Another major component of long-term debt includes rural special improvement district (RSID) bonds issued to provide property improvements to properties located within a specified area. Repayment of this debt is assessed to the benefited property owners, which can be repaid over the life of the bond or the remaining principal assessment against the property can be repaid anytime.

YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2008

The County provides additional bond debt service collateralization with the County's RSID Revolving Fund and other contingent funding requirements as specified by law. The County currently has \$1,290,425 of outstanding RSID bonds and the RSID Revolving Fund has a fund balance of \$261,952. The County issued no new RSID bonds during the year.

Notes payable are occasionally used to finance equipment that a particular fund may not have adequate reserves or funding to acquire within a budget cycle. All notes payable were paid off during fiscal year 2007. No new notes payable were issued during FY08.

Claims and judgments represent the amount of the estimated liability established that is expected to pay for the known liability cases pending against the County. The amount of the estimated liability at year end was \$1,075,000 for all cases.

Compensated absences is the amount of the liability for unpaid vacation and sick leave at yearend. The amount of the liability generally increases on an annual basis as a result of increasing wages and a general growth in number of total compensable hours. The amount of this liability at yearend was \$2,142,868.

Economic Factors and Next Year's Budget

New construction taxable value growth has ranged between 4.58-8.52% for the years 2004 to 2009. Approximately 20% of FY09's new construction growth of 8.52% included the valuation of the downtown tax increment district, which had sunset. New construction growth rates are expected to slow significantly from recent growth rates with the slowing economy and tighter credit markets. Local refineries' expansions added significantly to new construction as well. Local medical facilities continue to expand their operations. While the medical facilities do not add to the property tax base, they do add to the local economy. There are indications that the local economy is slowing but the local economy does tend to be resilient due to the nature of the local tax base.

The 2009 legislature will also be addressing a property reappraisal cycle, which depending on how it's implemented may have an impact on county revenues for FY10. The legislature always has the ability to make material changes to county revenues and costs.

Some of the more significant budgeted items for fiscal year 2009 include:

**YELLOWSTONE COUNTY, MONTANA
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
JUNE 30, 2008**

- Completion of the \$1.8 million veteran's cemetery project
- Completion of \$1.6 million in Metra seating replacement and enhancement projects. Other Metra enhancements include on-line ticketing, fiber cabling projects for internet access, and a "half-house" configuration to attract medium sized concerts.
- The County has been discussing with the federal government the possibility of a replacement federal courthouse being sited on county property with a federal decision on the project expected in the spring of 2009. The County will likely develop parking improvements for approximately \$300,000 once the federal government decides on their federal courthouse project.
- Projected costs for our health insurance plan rose 8.8% for FY09. This cost center remains a tremendous national problem with no systemic movement towards actual cost control to date.
- Budgets for gasoline, natural gas, and electricity were increased significantly in the FY09 budget, however, prices for these commodities have been mitigated lately.
- The 2009 State legislature will be considering a recommendation on district courts to add up to 2 new district court judges to Yellowstone County. The County may be mandated to provide space for the judges, the associated support staff, and possibly additional courtroom space. The County will track this legislation closely as it would likely have a significant price tag in remodeling and dislocation costs in order to facilitate any mandated space needs for additional judges.

Requests for Information

This financial report is designed to provide a general overview of Yellowstone County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Yellowstone County Finance Director
P.O. Box 35003
Billings, MT 59107